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# UTILITY PATENT APPLICATION TRANSMITTAL

(Only for new nonprovisional applications under 37 C.F.R. § 1.53(b))

Attorney Docket No. 84417.4001

First Inventor or Application Identifier Charles G. Fisher

Title System for and Method of Variable Annuity Contract Administration

Express Mail Label No. EL529167005US

## APPLICATION ELEMENTS

See MPEP chapter 600 concerning utility patent application contents.

1. ☒ \* Fee Transmittal Form (e.g., PTO/SB/17)  
 (Submit an original and a duplicate for fee processing)
2. ☒ Specification [Total Pages 27]  
 (preferred arrangement set forth below)
- Descriptive title of the Invention
  - Cross References to Related Applications
  - Statement Regarding Fed sponsored R & D
  - Reference to Microfiche Appendix
  - Background of the Invention
  - Brief Summary of the Invention
  - Brief Description of the Drawings (if filed)
  - Detailed Description
  - Claim(s)
  - Abstract of the Disclosure
3. ☒ Drawing(s) (35 U.S.C. 113) [Total Sheets 12]
4. Oath or Declaration [Total Pages ]
- a. ☐ Newly executed (original or copy)
  - b. ☐ Copy from a prior application (37 C.F.R. § 1.63(d))  
 (for continuation/divisional with Box 16 completed)
    - i. ☐ DELETION OF INVENTOR(S)  
 Signed statement attached deleting inventor(s) named in the prior application, see 37 C.F.R. §§ 1.63(d)(2) and 1.33(b).

5. ☐ Microfiche Computer Program (Appendix)
6. Nucleotide and/or Amino Acid Sequence Submission (if applicable, all necessary)
- a. ☐ Computer Readable Copy
  - b. ☐ Paper Copy (identical to computer copy)
  - c. ☐ Statement verifying identity of above copies

## ACCOMPANYING APPLICATION PARTS

7. ☐ Assignment Papers (cover sheet & document(s))
8. ☐ 37 C.F.R. § 3.73(b) Statement ☐ Power of Attorney  
 (when there is an assignee)
9. ☐ English Translation Document (if applicable)
10. ☒ Information Disclosure Statement (IDS)/PTO-1449 ☒ Copies of IDS Citations
11. ☐ Preliminary Amendment
12. ☒ Return Receipt Postcard (MPEP 503)  
 (Should be specifically itemized)
13. ☐ \* Small Entity Statement(s) ☐ Statement filed in prior application  
 (PTO/SB/09-12) Status still proper and desired
14. ☐ Certified Copy of Priority Document(s)  
 (if foreign priority is claimed)
15. ☒ Other: Appendix to Specification  
 (22 pages)

\* NOTE FOR ITEMS 1 & 13 IN ORDER TO BE ENTITLED TO PAY SMALL ENTITY FEES, A SMALL ENTITY STATEMENT IS REQUIRED (37 C.F.R. § 1.27), EXCEPT IF ONE FILED IN A PRIOR APPLICATION IS RELIED UPON (37 C.F.R. § 1.28).

16. If a CONTINUING APPLICATION, check appropriate box, and supply the requisite information below and in a preliminary amendment:

☐ Continuation ☐ Divisional ☐ Continuation-in-part (CIP) of prior application No. /

Prior application information: Examiner Group / Art Unit

For CONTINUATION or DIVISIONAL APPS only: The entire disclosure of the prior application, from which an oath or declaration is supplied under Box 4b, is considered a part of the disclosure of the accompanying continuation or divisional application and is hereby incorporated by reference. The incorporation can only be relied upon when a portion has been inadvertently omitted from the submitted application parts.

## 17. CORRESPONDENCE ADDRESS

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## TITLE OF THE INVENTION

System for and Method of Variable Annuity Contract Administration

## BACKGROUND OF THE INVENTION

5 1. Field of the Invention

The present invention relates to the financial vehicle known as the variable annuity contract. More particularly, the present invention relates to a system for and method of variable annuity contract administration.

10 2. Description of the Prior Art

When an individual retires and no longer collects a salary, he or she needs a way to be able to maintain the same quality of living as he or she enjoyed prior to retirement. Through the purchase of annuity contracts, individuals are provided with an opportunity to meet their retirement needs. As those of ordinary skill in the art know, an annuity is an insurance contract issued by an insurance company whereby the contractowner can obtain future payments based on the value at retirement of amounts paid into the annuity by the contractowner. Depending upon the payout option chosen, this stream of payments can be for life, for life with a period certain, for a certain period of time, etc. There are many payout options available with annuities.

There are generally two types of individual annuities, fixed and variable. With a fixed annuity, interest will accrue on monies paid in by the contractowner at a rate set by the insurance company during the accumulation phase. Taxes are deferred on the accumulated interest and annuity payout options are available. With a variable annuity, the contractowner can make deposits into a variety of mutual fund subaccounts offered through the annuity, defer the taxes on

income and gains from these funds, and convert the funds to an income stream for the rest of the contractowner's lifetime. In recent years, the variable annuity has become the more popular type of annuity contract.

5 A variable annuity contract has two phases. The first phase of the contract is the accumulation phase of the contract. The second phase of the contract is the payout phase of the contract. During the accumulation phase of a variable annuity, deposits can typically be made regularly or at the discretion of the contractowner and directed into any number of the underlying mutual fund subaccounts. Further, these balances can be moved from one fund to another at the discretion of the contractowner. Generally, a death benefit is also provided which pays the greater  
10 of the accumulation value of the contract or the total premiums paid into the contract less any withdrawals taken. There are also other, more liberal, death benefits in many contracts.

In the payout phase, the contractowner has a choice of a number of different payout options. For example, the payout may be a life annuity with a guaranteed period or a life annuity with period certain. The various payout options protect the contractowner from the adverse  
15 consequences of living too long and outliving his or her money.

As the variable annuity has evolved and as variable annuities have become more popular, there have been many innovations in this area. Various types of death benefits, living benefits, guaranteed minimum income benefits, bonus investment credits for the contractowners at issue, disability benefits, etc., have been developed. In the current variable annuity contract  
20 marketplace, there are many different variable annuity contracts with many different features, and it is expected that there will continue to be many innovations in the variable annuity field and many more additional product features in the future.

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A recent innovation in the field of variable annuities has been a bonus investment credit. A bonus investment credit is money that is paid into the annuity by the insurance company which issues the annuity contract at the time premium payments are made. The bonus investment credit is usually some percent of the premium that is paid into the contract by the contractowner. For  
5 example, with a 3% bonus investment credit, if a deposit of \$100,000 is made by the contractowner, an additional \$3,000 would be credited by the insurance company to the contract. The bonus investment credit has proved in the marketplace to be a valuable feature to potential contractowners. However, the implementation of the bonus investment credit in an annuity contract has typically resulted in higher penalties for withdrawals of money from the annuity by  
10 the contractowner.

Another area which has evolved in the variable annuity marketplace is the payment of commissions to distributors who sell variable annuities. Commissions can be paid to distributors up-front on premium deposits, partially up-front and partially in the renewal years, or as asset-based compensation. Asset-based compensation is defined as compensation which is paid as a  
15 percentage of the accumulated value of the contract. However, in the first year, the compensation will be paid as a percentage of the premium paid. This is because during the first year the premium has not had time to accumulate significantly and thus there will be no substantial difference between the premium paid and the assets of the contract.

From the contractowner's point of view, assuming that the compensation is actuarially  
20 equivalent, annuities that pay asset-based compensation to distributors are generally better. For example, assume that the commission is paid up-front and that there is no further compensation forthcoming from the contract to the distributor. In that situation, the distributor might try to convince the contractowner to move the money that is in his or her current annuity contract to a

different annuity contract, thereby entitling the distributor to another up-front commission payment. This would often not be in the best interests of the contractowner as the contractowner would have a new set of withdrawal charges with the new contract.

With respect to commissions, annuities can generally be categorized into two classes: (1) those annuities which pay commissions to distributors and (2) those annuities which do not pay commissions and are sold directly to contractowners through 800 numbers, over the Internet, etc. While, in general, annuities that do not pay commissions are cheaper for the contractowner, the contractowner of the annuity that pays commissions receives service and guidance from the distributor and thereby, theoretically speaking, is able to make better informed decisions concerning the variable annuity and his or her retirement needs.

Bonus investment credits have been particularly popular with prospective contractowners with both the class of annuities that pays commissions and the class of annuities that does not pay commissions. Within the class of annuities that pays commissions, there are a number of annuities that pay a bonus investment credit. However, currently all of these annuities have withdrawal charge percentages that are higher than the bonus investment credit percentage that is provided to the contractowner and that are considered to be high in the annuity marketplace.

Withdrawal charges are a feature of variable annuities that should be closely examined by a prospective contractowner. Withdrawal charges are a percentage of the amount withdrawn and apply for a certain period of time. Significant penalties for withdrawals and long periods of time for which withdrawal penalties apply are features of variable annuity contracts which can limit the flexibility of the contractowner. For example, in the case of a variable annuity that has a bonus investment credit and that pays commissions, typical withdrawal charges would range from 6% to

9% of the amount withdrawn in the first year and would apply for a period from six to ten years.

The withdrawal charges would decrease over the period of time during which charges apply.

Although there are many different types of variable annuity contracts in the marketplace, there has not been a variable annuity contract designed to pay a bonus investment credit to the contractowner where (1) the withdrawal charge percentages in all contract years are less than the bonus investment credit percentage and (2) commissions are paid to distributors. Currently, variable annuity contracts that pay commissions and have a bonus investment credit also have withdrawal charge percentages that are significantly greater than the bonus investment credit percentage. There are also commission-paying variable annuity contracts that have lower withdrawal charges but that do not have a bonus investment credit. Neither of these options would be as attractive to a prospective contractowner as a variable annuity that includes both a bonus investment credit and withdrawal charges which are not greater than the bonus investment credit.

It is clear from the foregoing discussion that variable annuity contracts are complex insurance vehicles. Because of this complexity, it is desirable to provide a system and method which can be used to facilitate the administration of variable annuity contracts expeditiously and efficiently. Additionally, because of the large amount of competition among issuers in the variable annuity market, it is desirable to provide a system for and method of administering variable annuity contracts which are more efficient and consumer-oriented than other variable annuity contracts in order to attract more would-be contractowners and thereby gain a competitive advantage in the marketplace.

## SUMMARY OF THE INVENTION

Accordingly, it is an object of the present invention to provide a system for and method of administration of variable annuity contracts. It is a further object of the present invention to provide a system for and method of administration of variable annuity contracts wherein the variable annuity contract is more efficient and more consumer-oriented than other variable annuity contracts in the marketplace. It is a further object of the present invention to provide a system for and method of administration of variable annuity contracts wherein the variable annuity includes a bonus investment credit, withdrawal charge percentages which are less than or equal to the bonus investment credit percentage, and level asset-based compensation to distributors. Other objects will become apparent from the following discussion.

The foregoing and other objects of the present invention are achieved through a novel and non-obvious system for and method of administering variable annuity contracts wherein each variable annuity contract includes a bonus investment credit, withdrawal charge percentages which are less than or equal to the bonus investment credit percentage in all contract years, and a level asset-based compensation structure. In accordance with one aspect of the present invention, a system is provided which includes memory means for storing variable annuity contract data and processing means for administering all aspects of the variable annuity contract from issuance to payout based on the stored contract data.

The present invention will now be described in greater detail, with frequent reference being made to the drawings identified below in which identical numerals represent identical elements.

**BRIEF DESCRIPTION OF THE DRAWINGS**

In the accompanying drawings:

figure 1 is a block diagram of a system in accordance with one embodiment of the present invention;

5 figure 2 is a block diagram of an Annuity Module in accordance with one embodiment of the present invention;

figure 3 is a flow chart illustrating the operation of the Contract Issue Routine of the Annuity Module of figure 2;

10 figure 4 is a flow chart illustrating the operation of the Payment Processing Routine of the Annuity Module of figure 2;

figure 5 is a flow chart illustrating the operation of the Compensation Routine of the Annuity Module of figure 2;

figure 6 is a flow chart illustrating the operation of the Free Look Routine of the Annuity Module of figure 2;

15 figure 7 is a flow chart illustrating the operation of the Transfer Routine of the Annuity Module of figure 2;

figure 8 is a flow chart illustrating the operation of the Surrender Routine of the Annuity Module of figure 2;

20 figure 9 is a flow chart illustrating the operation of the Anniversary Routine of the Annuity Module of figure 2;

figure 10 is a flow chart illustrating the operation of the Death Claim Routine of the Annuity Module of figure 2;



figure 11 is a flow chart illustrating the operation of the Payout Routine of the Annuity Module of figure 2; and

figure 12 is a flow chart illustrating the operation of the M&E Routine of the Annuity Module of figure 2.

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### DETAILED DESCRIPTION OF THE PREFERRED EMBODIMENT

The following description is presented to enable any person of ordinary skill in the art to practice the present invention. Various modifications to the preferred embodiment will be readily apparent to those of ordinary skill in the art, and the principles defined herein may be applied to other embodiments and applications without departing from the spirit and scope of the present invention and appended claims. Thus, the present invention is not intended to be limited to the embodiment shown, but is to be accorded the broadest scope consistent with the principles and features disclosed herein.

As discussed above, the present invention relates to a system for and method of administering variable annuity contracts. In accordance with the present invention, a variable annuity contract includes a bonus investment credit, withdrawal charge percentages less than or equal to the bonus investment credit percentage, and level asset-based compensation paid to the distributor. While the amounts of the bonus investment credit percentage, withdrawal charge percentages and compensation percentage will vary from issuer to issuer depending on in-house financial and actuarial calculations, in the preferred embodiment the bonus investment credit will be 3% of the premium paid in the first contract year; the withdrawal charges will be 3% of the withdrawal value in the first contract year, 2% in the second contract year, 1% in the third contract year, 1% in the fourth contract year, and 0% for the fifth year and after, and premium payments

made in the second contract year and later will not be subject to a withdrawal charge; and the compensation structure will be 1% of the premium paid in the first contract year and 1% of the accumulated account value of the contract for each year thereafter payable on a quarterly basis. Because of the combination of level (i.e., the same percentage in each contract year) asset-based compensation with the bonus investment credit, it is possible to provide contractowners with withdrawal charge percentages less than or equal to the bonus investment credit percentage in all contract years, thereby enabling contractowners to fund and manage their retirement needs in an efficient manner.

A variable annuity contract which may be used in accordance with the present invention is attached hereto as Appendix A. However, those of ordinary skill in the art will appreciate that the present invention is not limited to use in connection with the variable annuity contract attached hereto as Appendix A, but may be used in connection with any variable annuity contract, as long as (1) there is a bonus investment credit, (2) the withdrawal charge percentages are less than or equal to the bonus investment credit percentage in all contract years, and (3) the compensation to distributors is level and asset-based. The copyright in the variable annuity contract attached hereto as Appendix A is owned by The Guardian Life Insurance Company of America and no license is granted herein to make copies of the variable annuity contract except as an appendix to a United States patent which issues hereon.

Referring to figure 1, a block diagram of a system in accordance with one embodiment of the present invention is shown. The system includes a central processing unit (CPU) 2 for controlling the operation of the system; input means 4 operatively coupled to the CPU 2, such as a keyboard, floppy drive, tape drive, computer network interface, etc., or any combination thereof, for inputting variable annuity contract data into the system; control means 5, such as a keyboard

and/or mouse, for allowing a user to control the operation of the system; a monitor 6 and printer 8 for system output; data storage means 9, such as a hard disk drive or tape drive or other memory means, operatively coupled to the input means 4 and CPU 2, including an Annuity Database 10 for storing variable annuity contract data for use by the Annuity Module 20 relating to administration of the contracts. This contract data includes but is not limited to the bonus investment credit percentage of the contract, the withdrawal charge percentages of the contract, and the asset-based compensation percentage. The Annuity Database 10 is also used for storing data relating to each particular variable annuity contract administered by the system, including but not limited to, the name of the contractowner, the date of birth of the contractowner, the sex of the contractowner, the address of the contractowner, the name of the annuitant, the date of birth of the annuitant, the sex of the annuitant, the address of the annuitant, the contract purchase date, the amount of premium paid by the contractowner and the dates of payment thereof, the beneficiary named in the contract, the selected mutual fund subaccount allocations of the annuity, the number of fund units for each mutual fund subaccount, the payout option selected by the contractowner including the annuitization date, whether a rider is chosen and what the terms of the rider are, and data relating to any events associated with each contract, such as data relating to any withdrawal made by a contractowner. The contractowner alone has the right to receive all benefits of the annuity contract and to exercise all the rights that the annuity contract grants. The annuitant, who may or may not be the contractowner, is designated in the application for the annuity contract. All monthly annuity payments are based on the sex and age of the annuitant. The death benefit of the annuity contract is also payable on the death of the annuitant.

The data storage means 9 further includes an Annuity Module 20 which includes instructions to be executed by the CPU 2 for administering annuity contracts based on data stored

in the Annuity Database 10. The system also includes a random-access-memory (RAM) 11 which may be used in addition to or in combination with the data storage means 9 to store contract data; and a communications interface 13, such as a modem or network card, which can be used to communicate with other computers and computer networks.

5 In practice, the system will typically take the form of a personal computer running MS-DOS or Windows, but may take the form of a workstation, a mainframe computer, a mid-range computer, or any other apparatus that can be configured to perform the functions described herein. The software described herein, including the Annuity Module 20, may be written in any programming language that is compatible with the system.

10 Referring to figure 2, a block diagram of the Annuity Module 20 is provided. The Annuity Module 20 includes a Contract Issue Routine 22 which is used to issue new annuity contracts; a Payment Processing Routine 24 which is used to process premium payments; an M&E Routine 25 which is used to assess mortality and expense risk charges and administrative charges on each contract on a daily basis; a Compensation Routine 26 which is used to calculate  
15 compensation payments; a Free Look Routine 28 which is used to process contract returns; a Transfer Routine 30 which is used to transfer annuity monies between mutual fund subaccounts; a Withdrawal Routine 32 which is used to calculate withdrawal charges when money is withdrawn from an annuity by a contractowner; an Anniversary Routine 34 which is used to calculate annual contract fees; a Death Claim Routine 36 which is used to calculate the death benefit and pay the  
20 beneficiary when the annuitant dies; and a Payout Routine 38 which is used to calculate and make annuity payments once the contract is annuitized.

Referring to figure 3, a flow chart of the Contract Issue Routine 22 is provided. The contract issuance process begins when a new application has been received from a prospective

contractowner 40. Upon receipt of this application, various data is entered into the system 42 via the input means 4, including, but not limited to, the name of the contractowner, the address of the contractowner, the date of birth of the contractowner, the sex of the contractowner, the name of the annuitant, the address of the annuitant, the date of birth of the annuitant, the sex of the annuitant, the premium paid by the contractowner, the contract beneficiary, the selected fund subaccount allocations of the annuity, what riders, if any, have been chosen, and whether a 1035/Trustee to Trustee transfer is involved. The data will typically be input into the system by hand via a keyboard, although the information may be electronically uploaded to the system via floppy disk, tape drive, computer network, etc. The application data is stored in the Annuity Database 10.

Following the input and storage of data 42, the Contract Issue Routine 22 determines from the application information whether a 1035/Trustee to Trustee transfer is involved 44. A 1035/Trustee to Trustee transfer is an exchange of an annuity contract from one insurer for a new contract with a second insurer. A 1035 exchange involves non-qualified money, and a Trustee to Trustee exchange involves qualified money such as an IRA or pension plan. If a 1035/Trustee to Trustee transfer is involved, a communication, either electronically or non-electronically, is initiated with the company that currently has the contractowner's money 46. The system then waits until the money has been received 48. Once the money has been received, either from the contractowner or from another company, it is applied to the contractowner's account and recorded in the Annuity Database 50. A new contract is then issued 52 and delivered to the contractowner by mail or other means 54. The contract issue event is then recorded in the Annuity Database 10 along with the contract issue date 55.

Once a new contract has been issued, the contractowner can make premium payments. As indicated above, these payments are processed by the Payment Processing Routine 24. A flowchart of the Payment Processing Routine 24 is provided in figure 4. Upon receipt of a payment, the Payment Processing Routine 24 first determines if the payment is received in the first contract year 56. If the payment is received in the first contract year, the amount of the bonus investment credit to be credited to the contract is calculated 58 based on the percentage figure stored in the Annuity Database 10. As indicated above, this bonus investment credit is preferably 3% of the premium payment. Once the Payment Processing Routine 24 has calculated the bonus amount 58, the bonus amount is allocated to the various mutual fund subaccounts selected by the contractowner 60. The fund net asset values (NAVs) for each mutual fund selected by the contractowner are then retrieved, typically from the computer system of an organization which provides these values on a daily basis via the communications interface 13, and the number of fund units for each selected mutual fund subaccount is calculated by dividing the NAV for each mutual fund into the corresponding allocated bonus amount and the subaccount information in the Annuity Database 10 is updated accordingly 64. The Payment Processing Routine 24 then electronically allocates the premium paid into the various mutual fund subaccounts 66. After receiving the fund NAVs 68, the Payment Processing Routine calculates the number of fund units for the premium that has been paid and updates the subaccount information in the Annuity Database 70. The final step of the Payment Processing Routine 24 is to produce a confirmation statement 72 on the printer 8, which is mailed to the contractowner.

With respect to the M&E Routine 25, it is necessary in the variable annuity industry for issuers to assess a daily mortality and expense risk ("M&E") charge to each contractowner. In addition, a number of companies assess an administrative charge to each contractowner. The

mortality and expense risk charge and the administrative charge are typically a small percentage of the accumulated account value, typically on the order of 1.25% to 1.85% depending on the issuer. Referring to figure 12, the M&E Routine first determines the accumulated account value 166 by multiplying the number of fund units for each mutual fund subaccount as recorded in the Annuity Database 10 by the corresponding updated daily NAV. The results are then summed to arrive at a total account value. A determination is then made as to what riders, if any, are included in the contract 168. The appropriate mortality & expense risk charge and administrative charge are then calculated as a percentage of the accumulated account value and deducted from the account value of the contract 170-176.

10 As indicated above, the variable annuity has associated level asset-based compensation which is paid out to the distributor that sold the contract to the contractowner. This compensation is calculated and paid by the Compensation Routine 26. A flow chart of the Compensation Routine 26 is shown in figure 5. Upon activation, the Compensation Routine 26 will first determine whether or not the contract is in the first year 74. If the contract is in the first year, the  
15 commission is calculated as 100 basis points (i.e., 1%) of the premium paid in the first contract year 76. If the contract is not in the first year, then asset-based compensation is paid at the end of each contract quarter. Therefore, the system will have to determine if it is the end of a contract quarter 78. If it is not the end of a contract quarter, no compensation is paid and the Compensation Routine 26 is terminated. If it is the end of a contract quarter, the accumulated  
20 value of the contract needs to be calculated 80. Since asset-based compensation is paid on a quarterly basis, the compensation is calculated as the accumulated value of the contract multiplied by 25 basis points (1/4 of 100 basis points) on the quarterly anniversary 82. If compensation is being paid, a compensation statement 84 and compensation check 86 are printed out and mailed to

the person or entity receiving the compensation. The compensation payment is then recorded in the Annuity Database 87.

All variable annuity contracts have an associated free look period. During this period, which typically runs ten days from the date of contract issuance, the contractowner may return the contract for full reimbursement. The Free Look Routine 28 is used to process contract returns during the free look period. A flow chart of the Free Look Routine 28 is provided in figure 6. The first step in the Free Look Routine 28 is to check the Annuity Database 10 to determine whether the free look provision has been exercised 88 by the contractowner. If it has not, then the Free Look Routine 28 is terminated. If it has been exercised, then a determination of how much money is returned to the contractowner is made. There are two different ways to determine how much money is to be returned: (1) the return of value method and (2) the return of premium method. The method used is determined by the jurisdiction in which the contract was issued as the applicable laws vary from state to state 90. If the state is a return of premium state, the premium amount that was paid in is returned to the contractowner 92.

If, on the other hand, the state is a return of value state, then the accumulation value of the contract on the day the free look option is exercised minus the value of any bonus investment credits plus any mortality and expense risk charges that may have been charged on the bonus amount is the value returned to the contractowner. The Free Look Routine 28 thus determines any mortality and expense risk charges that were charged on the bonus amount 94 and generates a check for the return amount 96. The check and a confirmation statement are then mailed out to the contractowner 98. Any commissions that were paid will also have to be reclaimed from the distributor 100. The account will then be closed out and no additional processing will be done 102. The account closing is recorded in the Annuity Database 10.



Because the annuity is a variable annuity, the contractowner can transfer money between the various mutual fund subaccounts. This functionality is handled by the Transfer Routine 30. A flow chart of the Transfer Routine 30 is provided in figure 7. If a request is received to transfer money 104 between fund subaccounts, the money is reallocated among the various funds as has been requested 106 and recorded in the Annuity Database 107. A confirmation statement will then be printed and mailed out to the contractowner 108.

Along with transferring money between various fund subaccounts, the contractowner can also withdraw all or some of the money in his/her account. However, as discussed above, there are charges associated with such withdrawal. The Withdrawal Routine 32 is used to process these withdrawal charges. A flow chart of the Withdrawal Routine 32 is provided in figure 8. Once the contractowner has provided written notification of his or her desire to withdraw money, a determination is made as to whether a premium paid during the second year or a subsequent year is being withdrawn 109. Withdrawals are made on a last in-first out basis in order to minimize the withdrawal charge. If so, then, in accordance with the preferred embodiment of the present invention, the payment is made to contractowner without any charges being assessed 118. Next, a determination is made as to whether the contract is in its first four years 110. In accordance with the preferred embodiment of the present invention, if the contract is in the first four years, a withdrawal charge is assessed against any money that is withdrawn which had been paid in the first contract year. The withdrawal charge percentage is determined with reference to the contract year 112. In the preferred embodiment, in the first contract year the withdrawal charge is 3% of the amount withdrawn. In the second, third, and fourth contract years the withdrawal charges are 2%, 1%, and 1% of the amount withdrawn, respectively. The withdrawal charge is then deducted from the amount paid to the contractowner 114. In the preferred embodiment, in the first four

contract years, the contractowner may make a partial withdrawal, without incurring a sales charge, of an amount equal to the greater of: (a) the excess of the accumulated value on the date of withdrawal over the net premium payments made in the first contract year; or (b) 10% of the total premium payments made during the first contract year, minus the aggregate amount of all prior partial withdrawals made during the current contract year.

Before the contractowner is paid, a determination is made as to whether the entire account value is being withdrawn 116. If the entire contract value is not being withdrawn, then the withdrawal amount is paid to the contractowner 118. If the entire accumulated value of the contract is being withdrawn, then the amount paid is further reduced. First, any premium taxes that have been paid by the insurance company are recovered 120. In addition, the appropriate contract fee is deducted from the proceeds 122 since contract fees are not charged until the end of the contract year. These two items, in addition to any withdrawal charges assessed, are deducted from the accumulated value, and the net surrender value of the contract is paid out 124. A confirmation statement and a check are then produced and mailed out 126 and the withdrawal event is recorded in the annuity database 127.

At the end of each contract year, a contract fee is charged to each contractowner. The Anniversary Routine 34 of the Annuity Module 20 is used to process this charge. A flow chart of the Anniversary Routine 34 is provided in figure 9. The first step is to determine whether a contract is at an anniversary 128 by checking the contract date in the Annuity Database 10. If it is not a contract anniversary, then the Anniversary Routine 34 is terminated. If the contract is at an anniversary, a determination is made as to whether the account value is less than \$100,000 130. If the account value is greater than \$100,000, then no annual fee is charged. If the account value is less than \$100,000, then an annual fee is charged 132. The account value threshold is

discretionary and will vary from issuer to issuer. At every contract anniversary, a confirmation statement is also sent out to the contractowner 134 which details all account activity and shows the value of the account. The Annuity Database 135 is also updated to reflect any contract fee assessed.

5 If the annuitant dies, the beneficiary will receive any death benefit. The Death Claim Routine 36 is used to process any payments to the beneficiary. A flow chart of the Death Claim Routine 36 is provided in figure 10. Once notification of the death of the annuitant is received by the system 136 and the Death Claim Routine 36 is activated, the type of death benefit is first determined by the system. If the contract includes an enhanced death benefit rider 138, the death  
10 benefit payable under this rider is calculated 140. The death benefit of the contract is then also calculated 142. The amount, if any, paid out is the greater of the death benefit of the contract and the death benefit of the rider 144. A confirmation statement and a check are then produced and mailed to the named beneficiary 146 and the payment is recorded in the Annuity Database 147.

Referring to figure 11, a flow chart of the Payout Routine 38, which is used to process  
15 payout options, is provided. Initially, a determination is made as to whether the contract has been annuitized by checking the Annuity Database 148. If it has not, then the payout routine is terminated. If, however, the contract has been annuitized, then the payout option selected by the contractowner 150 is determined from the Annuity Database 10. In accordance with the preferred embodiment of the present invention, the payout options are (1) a life annuity without a  
20 guaranteed period, (2) a life annuity with a 10 year guaranteed payout period, (3) an option where variable payments are made until age 100, and (4) a joint and survivor option that will make reduced payments to the survivor. However, the present invention is not limited to the foregoing

payout options and, in fact, any other payout options may be used in accordance with the present invention.

While in the payout phase, money can be transferred between the various fund subaccounts. If the contractowner requests a transfer, the Transfer Routine 30 processes the request. Thus, if a request is received to transfer money and the request meets the rules of the contract 104, the money is reallocated among the various fund subaccounts as has been requested 106. Compensation is also paid to distributors for as long as annuity payments are being made. The Compensation Routine 26 processes these compensation payments.

The payment amount based on the payout option selected is then calculated and a check and confirmation statement are generated and mailed to the annuitant 153 and the Annuity Database is updated 155. If the variable payments to age 100 has not been selected, the payout routine will continue in this manner until all payments have been made 156.

Typically, once the contract is annuitized the contract may not be surrendered. However, if the variable payments to age 100 option is chosen 154, an option to surrender the contract is preferably provided to the contractowner. If there is a request to surrender the contract 158, the present value of the remaining payments needs to be calculated 160. In addition, in the preferred embodiment, if the contract had annuitized in the first four contract years, sales charges were waived at the time of annuitization. The present value of the remaining payments is reduced by a portion of the sales charge that was waived. The amount that was waived thus needs to be calculated 162. The amount waived is then multiplied by the ratio of the number of payments that have not yet been paid to the total number of payments that were to be paid at the time of annuitization. This is the amount by which the present value of the remaining payments is

reduced. A confirmation and a check for the surrender value are then produced and mailed out 164 and the Annuity Database is updated 165.

Thus, in accordance with the foregoing a system for and method of variable annuity contract administration are provided which achieve the objects of the present invention.

5 Modifications to the above would be obvious to those of ordinary skill in the art, but would not bring the invention so modified beyond the scope of the appended claims.

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## CLAIMS

What is claimed is:

1. A system for administering variable annuity contracts, said system comprising:

memory means for storing data relating to at least one variable annuity contract of a contractowner, said at least one variable annuity contract having an associated bonus investment credit percentage, associated withdrawal charge percentages for each of a plurality of contract  
5 years, each withdrawal charge percentage being less than or equal to said bonus investment credit percentage, and an asset-based compensation percentage constant over all contract years, said data including said bonus investment credit percentage and a premium amount paid by said contractowner in a first contract year; and

processing means operatively coupled to said memory means configured to read said  
10 bonus investment credit percentage and said premium amount from said memory means and calculate a bonus investment credit by multiplying said premium amount by said bonus investment credit percentage.

2. The system according to claim 1 wherein:

said data further includes a withdrawal charge percentage for said first contract year and an amount to be withdrawn from said variable annuity by said contractowner during said first contract year; and

5 said processing means is further configured to read said withdrawal charge percentage and said withdrawal amount from said memory means and calculate a withdrawal charge by

multiplying a portion of said withdrawal amount subject to a withdrawal charge by said withdrawal charge percentage.

3. The system according to claim 1 wherein:

said data further includes a withdrawal charge percentage for a year other than said first contract year and an amount to be withdrawn by said contractowner during said other year; and

said processing means is further configured to read said withdrawal charge percentage and  
5 said withdrawal amount from said memory means and calculate a withdrawal charge by multiplying a portion of said withdrawal amount subject to a withdrawal charge by said withdrawal charge percentage.

4. The system according to claim 1 wherein:

said data further includes said compensation percentage; and

said processing means is further configured to read said compensation percentage from  
said memory means and calculate a compensation amount to be paid to a distributor in said first  
5 contract year by multiplying said premium amount by said compensation percentage.

5. The system according to claim 1 wherein:

said data further includes data from which an accumulated contract value can be calculated and said compensation percentage; and

said processing means is further configured to read said accumulated contract value data  
5 and said compensation percentage from said memory means and calculate (1) said accumulated contract value and (2) a compensation amount to be paid to a distributor in a year subsequent to

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said first contract year by multiplying said accumulated contract value by said compensation percentage.

6. The system according to claim 1 wherein said data further includes annuity payout information and said processing means is further configured to calculate and issue payments to an annuitant based on said payout information.

7. The system according to claim 1 wherein said data further includes mutual fund subaccount allocation information and said processing means is further configured to allocate said premium amount among mutual fund subaccounts based on said allocation information.

8. The system according to claim 1 wherein said bonus investment credit percentage is 3%.

9. The system according to claim 1 wherein in the first contract year the withdrawal charge percentage is 3%.

10. The system according to claim 9 wherein in a second contract year following said first contract year the withdrawal charge percentage is 2%.

11. The system according to claim 10 wherein in a third contract year following said second contract year the withdrawal charge percentage is 1%.



12. The system according to claim 11 wherein in a fourth contract year following said third contract year the withdrawal charge percentage is 1%.

13. The system according to claim 12 wherein in fifth and subsequent contract years following said fourth contract year the withdrawal charge percentage is 0%.

14. A method of administering of variable annuity contracts, said method comprising the steps:

storing data relating to at least one variable annuity contract of a contractowner in a memory means, said at least one variable annuity contract having an associated bonus investment credit percentage, associated withdrawal charge percentages for each of a plurality of contract years, each withdrawal charge percentage being less than or equal to said bonus investment credit percentage, and an asset-based compensation percentage constant over all contract years, said data including said bonus investment credit percentage and a premium amount paid by said contractowner in a first contract year;

reading said bonus investment credit percentage and said premium amount from said memory means; and

calculating a bonus investment credit by multiplying said premium amount by said bonus investment credit percentage.

15. The method according to claim 14:

wherein said data further includes a withdrawal charge percentage for said first contract year and an amount to be withdrawn from said variable annuity by said contractowner during said first contract year; and

5 including the additional steps of reading said withdrawal charge percentage and said withdrawal amount from said memory means and calculating a withdrawal charge by multiplying a portion of said withdrawal amount subject to a withdrawal charge by said withdrawal charge percentage.

16. The method according to claim 14:

wherein said data further includes a withdrawal charge percentage for a year other than said first contract year and an amount to be withdrawn by said contractowner during said other year; and

5 including the additional steps of reading said withdrawal charge percentage and said withdrawal amount from said memory means and calculating a withdrawal charge by multiplying a portion of said withdrawal amount subject to a withdrawal charge by said withdrawal charge percentage.

17. The method according to claim 14:

wherein said data further includes said compensation percentage; and

including the additional steps of reading said compensation percentage from said memory means and calculating a compensation amount to be paid to a distributor in a first contract year by  
5 multiplying said premium amount by said compensation percentage.

18. The method according to claim 14:

wherein said data further includes data from which an accumulated contract value can be calculated and said compensation percentage; and

including the additional steps of reading said accumulated contract value data and said  
5 compensation percentage from said memory means and calculating (1) said accumulated contract value and (2) a compensation amount to be paid to a distributor in a year subsequent to said first contract year by multiplying said accumulated contract value by said compensation percentage.

19. The method according to claim 14:

wherein said data further includes annuity payout information; and

including the additional steps of reading said payout information from said memory means and calculating and issuing payments to said annuitant based on said payout information.

20. The method according to claim 14 wherein:

said data further includes mutual fund subaccount allocation information; and

including the additional steps of reading said mutual fund subaccount allocation  
information from said memory means and allocating said premium amount among mutual fund  
5 subaccounts based on said allocation information.

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**ABSTRACT**

A system for and method of variable annuity contract administration is provided. Each variable annuity contract includes a bonus investment credit percentage, withdrawal charge percentages less than or equal to the bonus investment credit percentage in all contract years, and  
5 level asset-based compensation to distributors. In accordance with the invention, data relating to variable annuity contracts are stored in a memory means. A processing means is configured to read and manipulate the stored data to administer the variable annuity contracts from issuance to payout.

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Figure 1

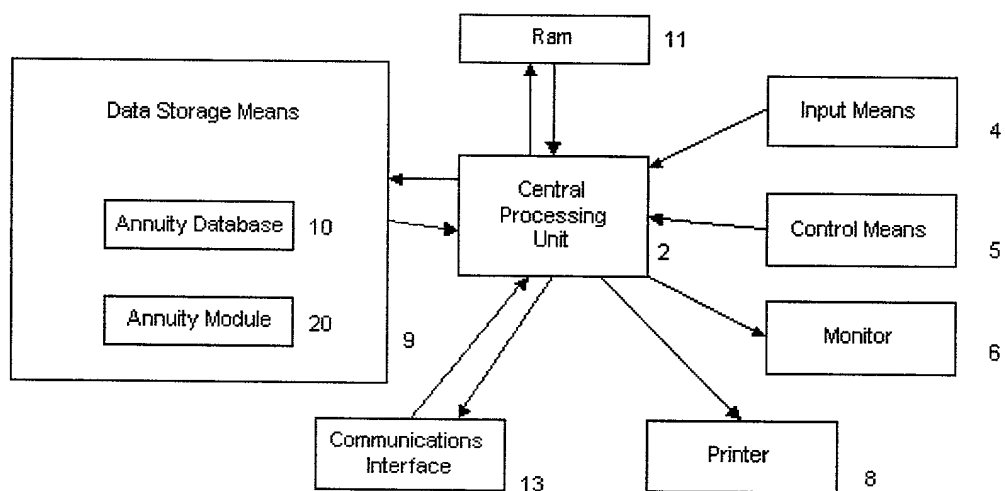


Figure 2

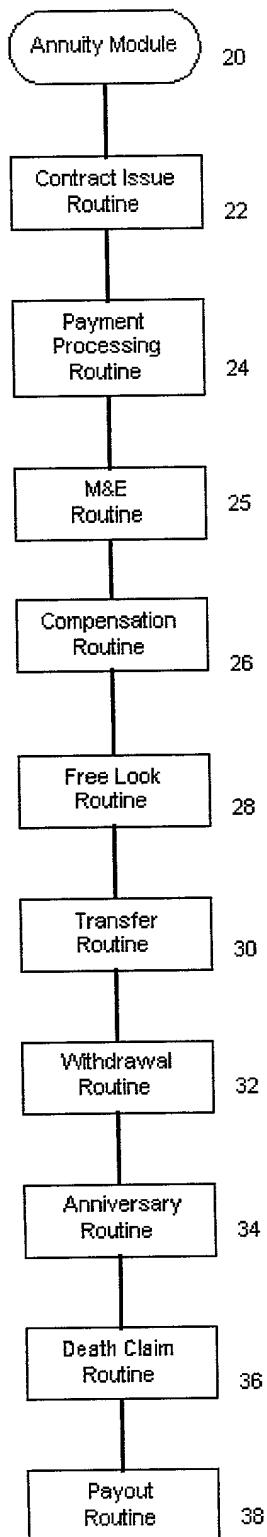
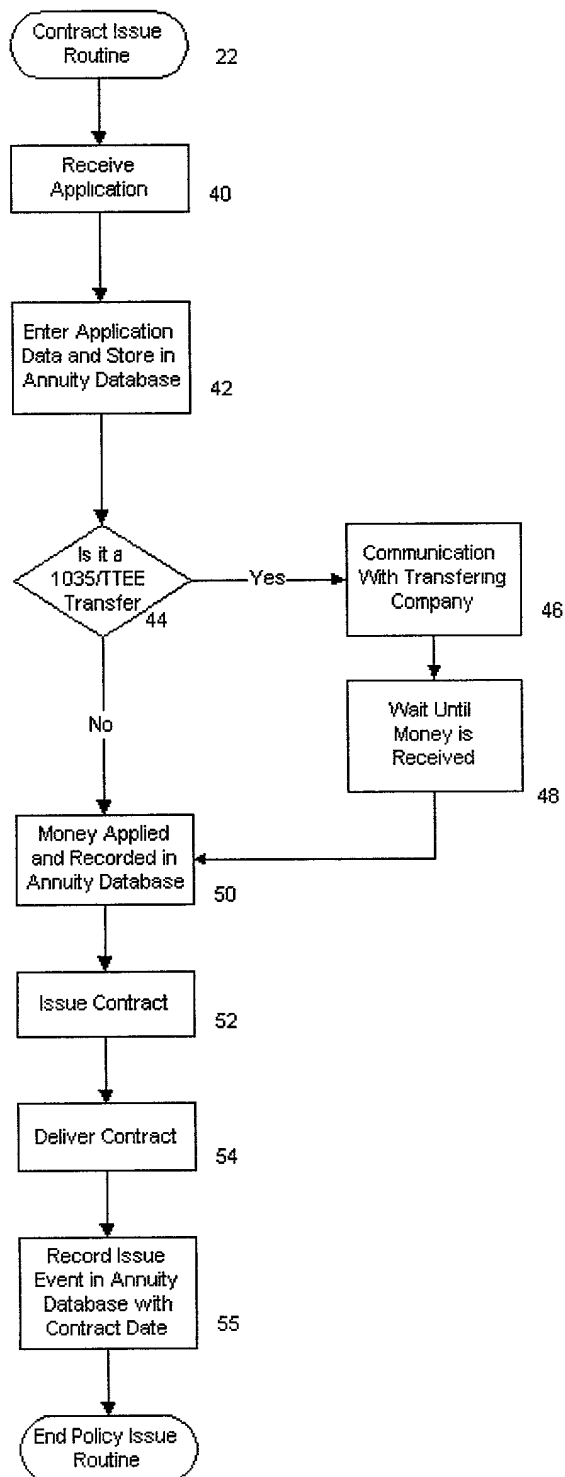


Figure 3



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Figure 4

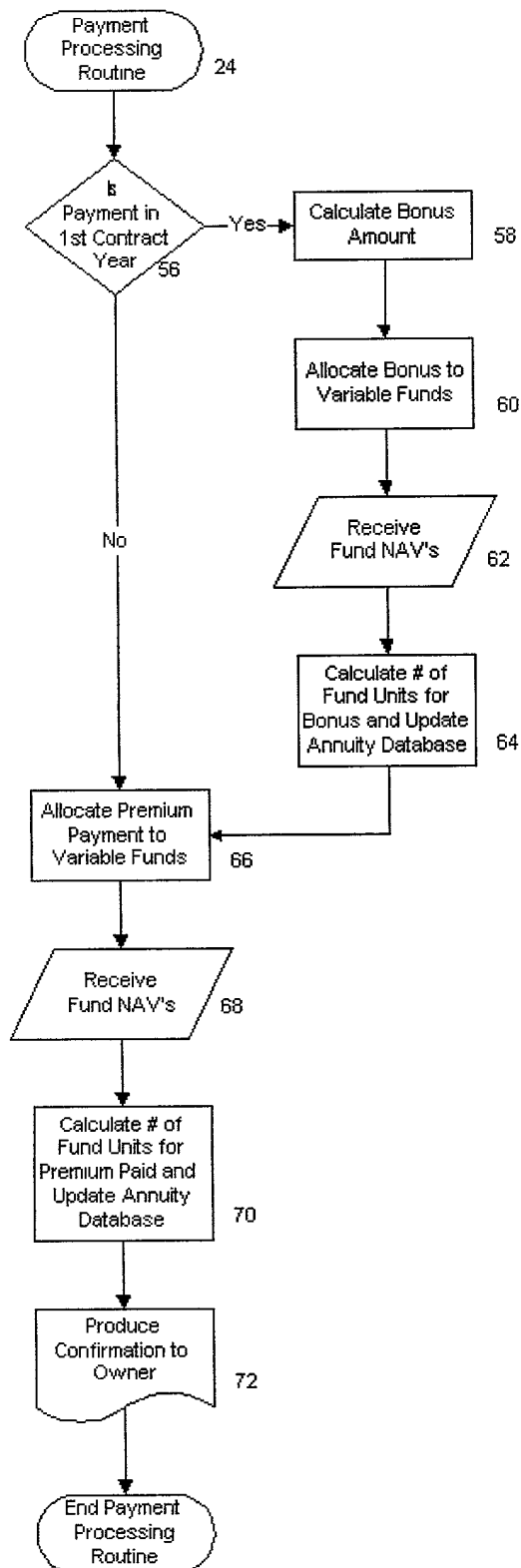




Figure 5

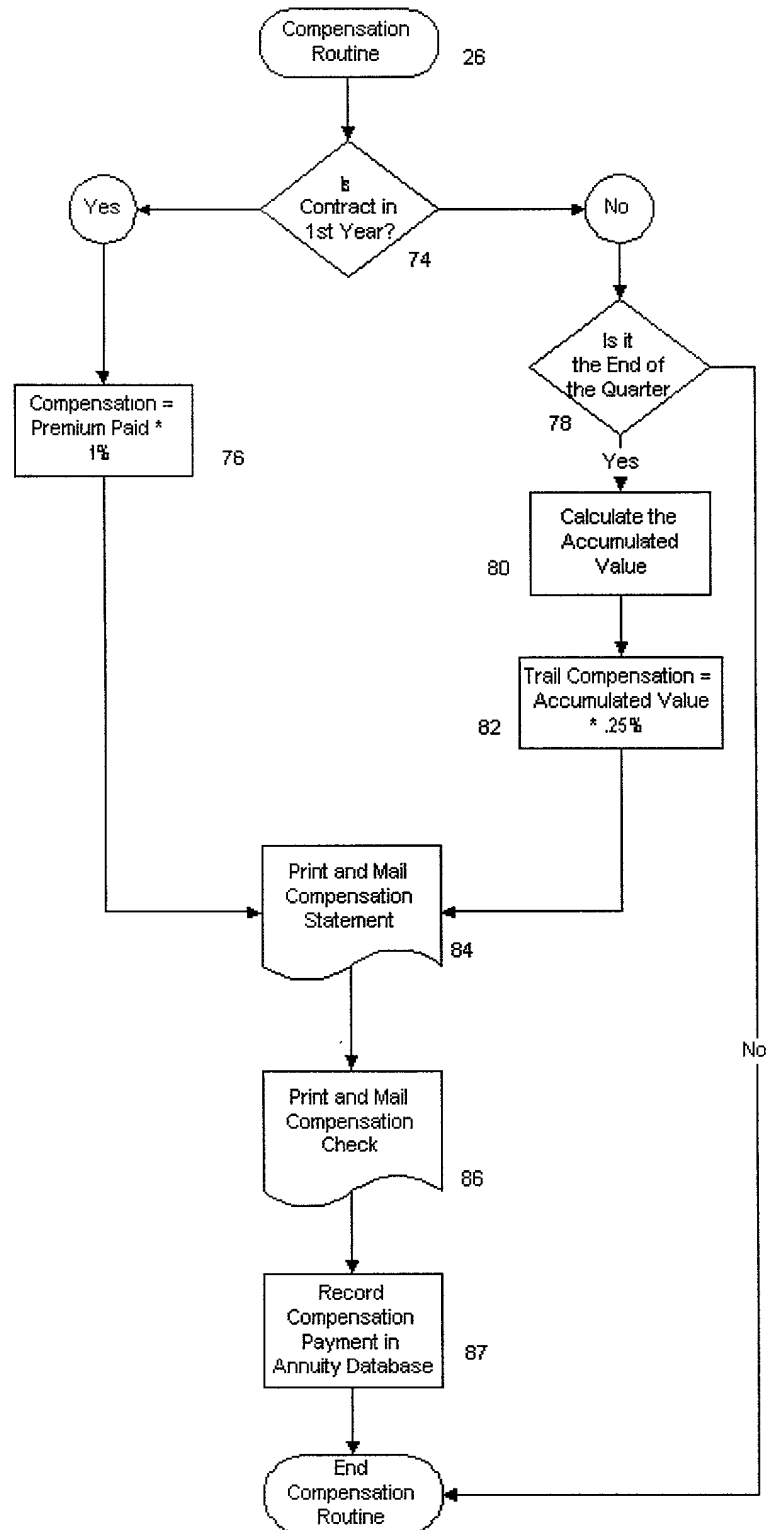


Figure 6

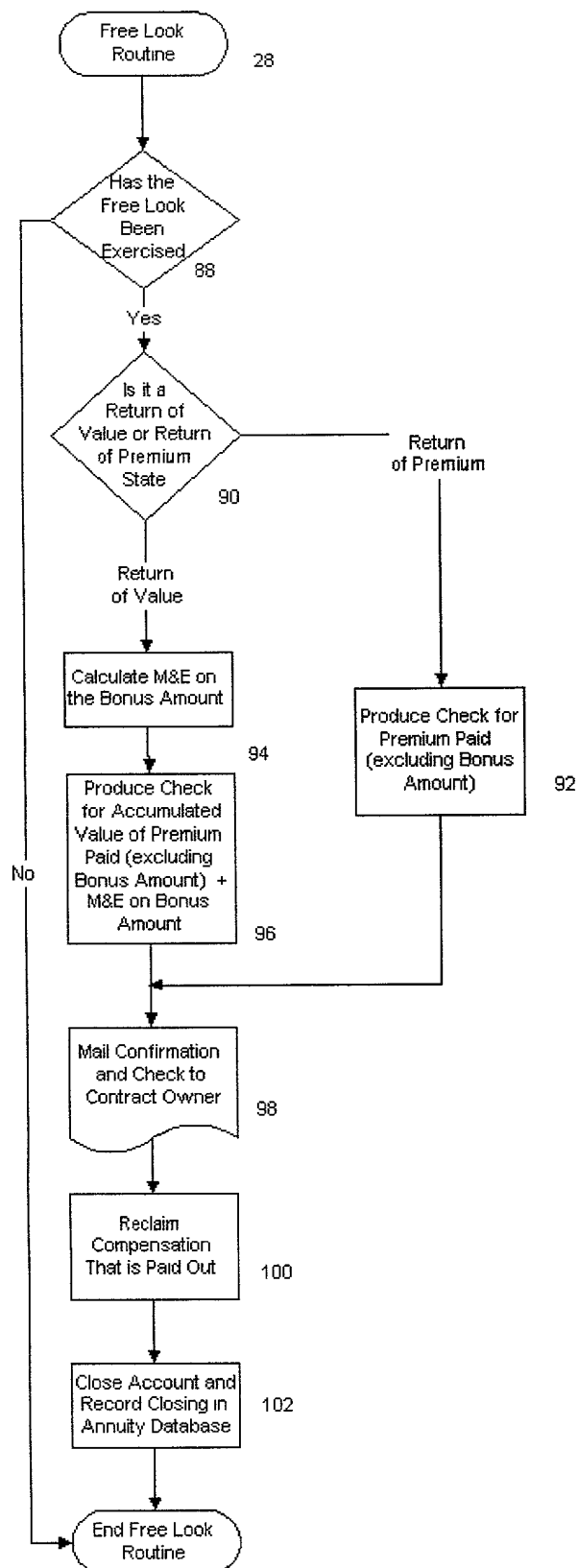
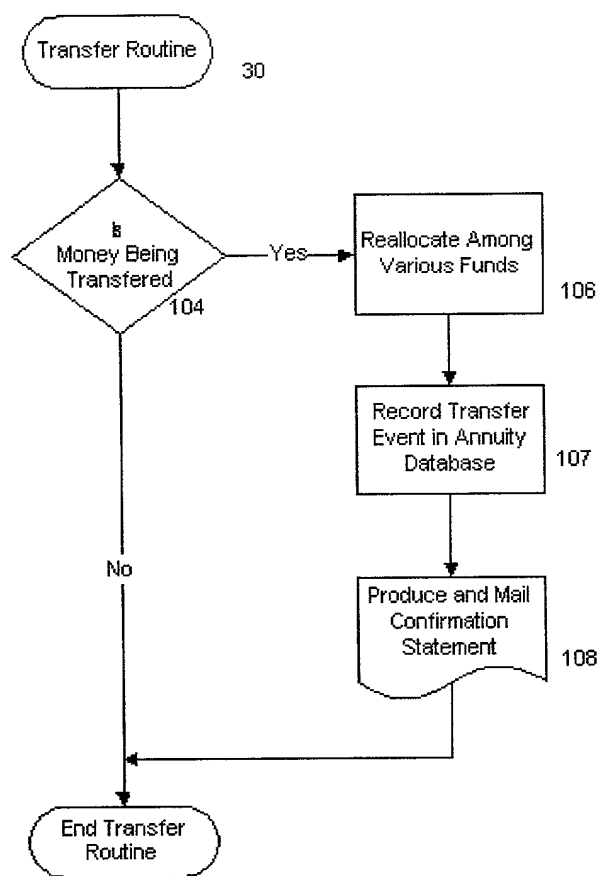
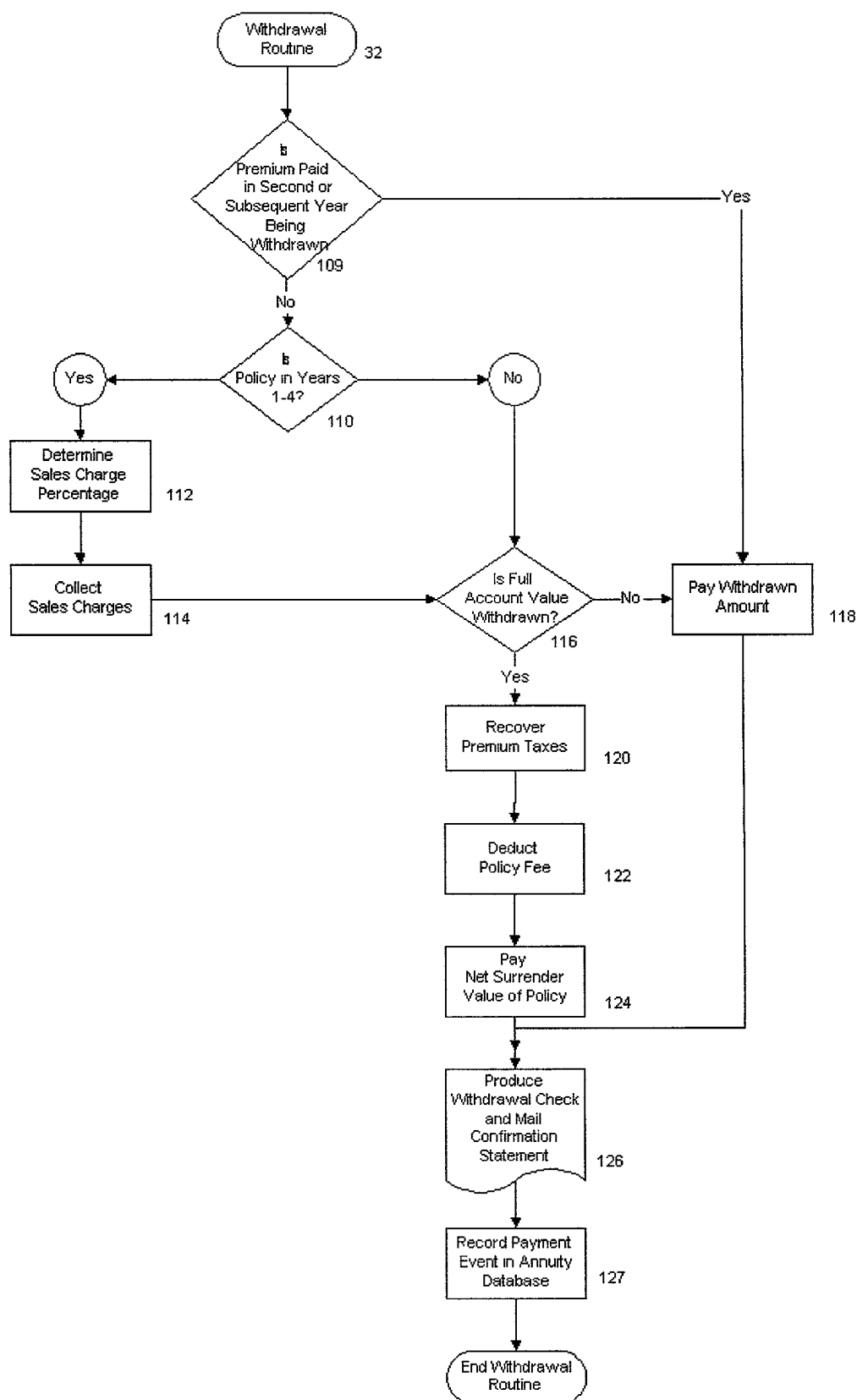


Figure 7



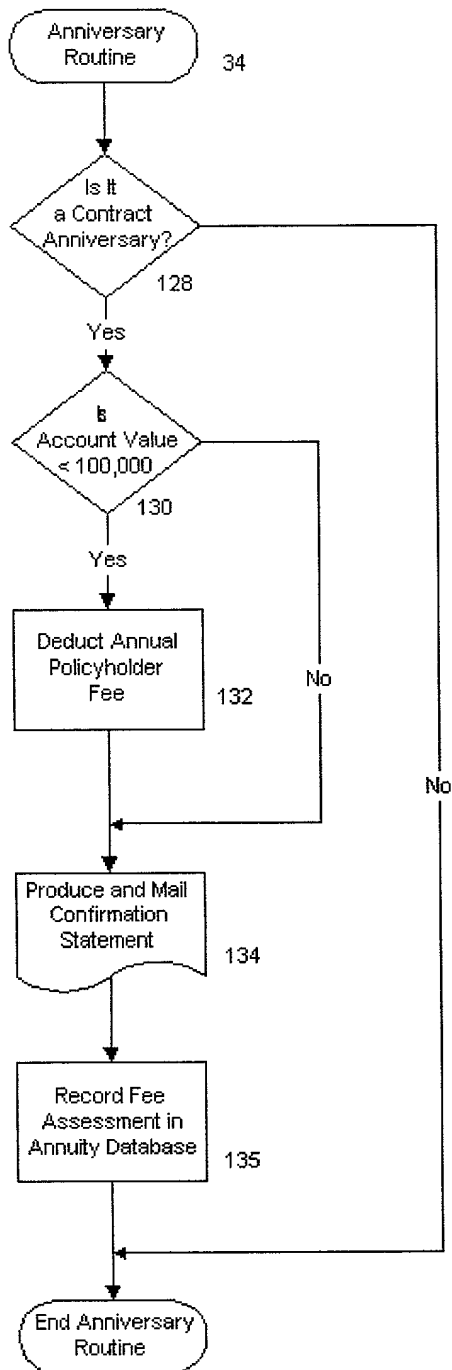
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Figure 8



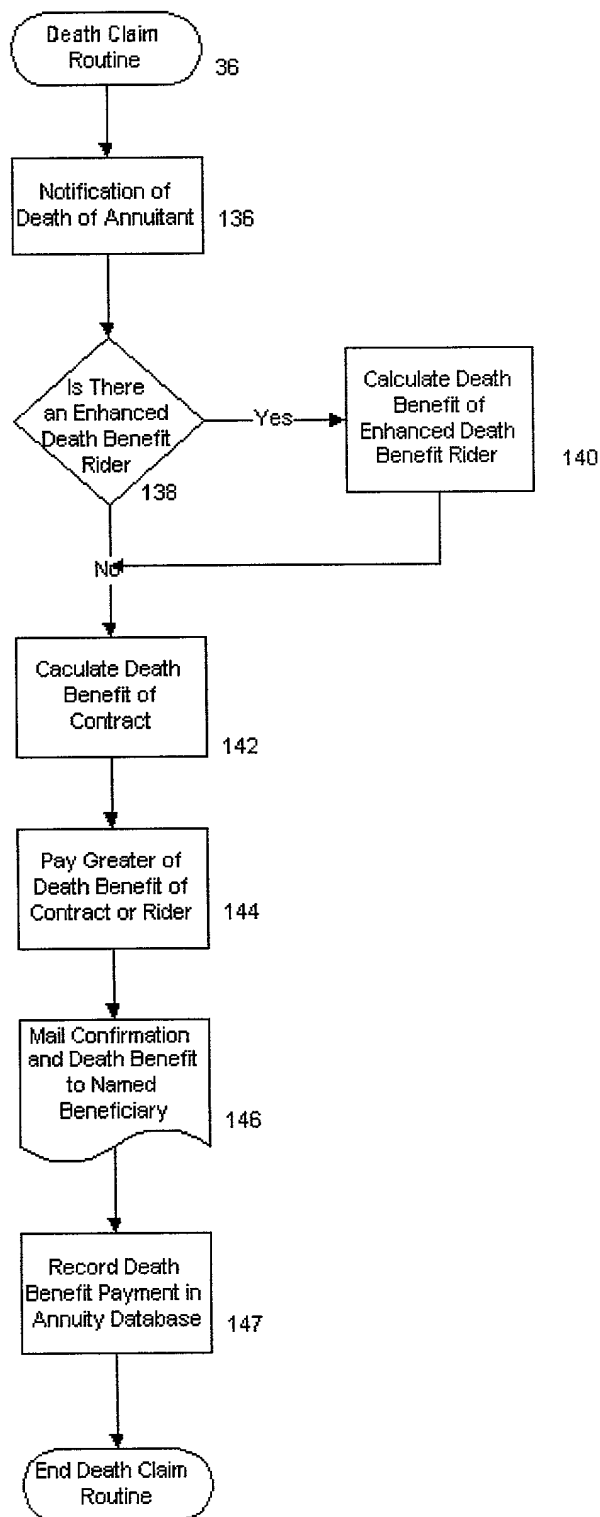
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Figure 9



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Figure 10



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Figure 11

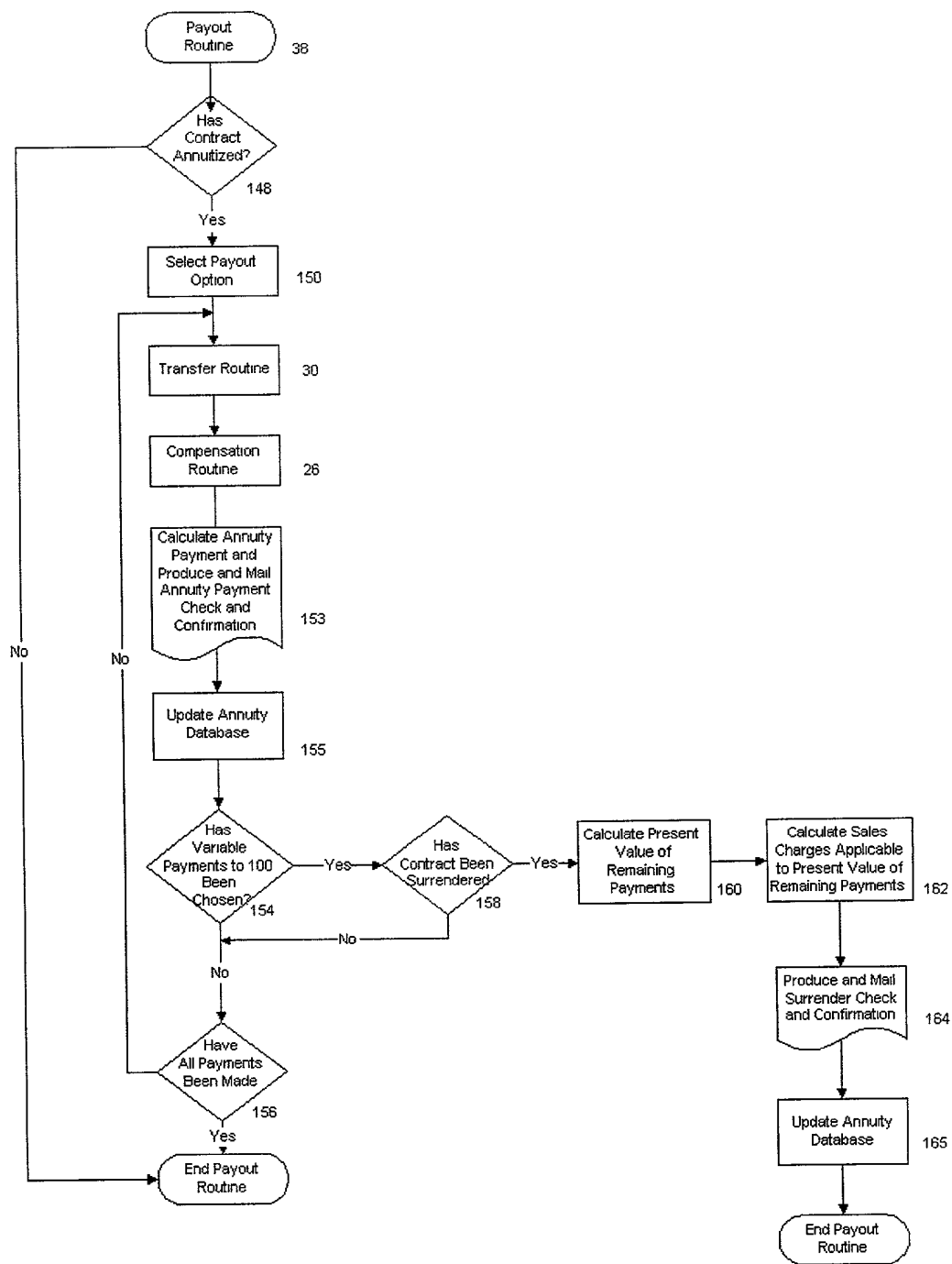


Figure 12

